

## Executive Summary

Fixed income assets faced mixed results in December as rising yields weighed on asset class performance. The Treasury yield curve remains considerably inverted – as measured by the 2-10 year spread. The yield-to-maturity on 2-year Treasuries ended the period at 4.42% with bond investors facing the largest curve inversion since the Volcker led era in the early 1980s. Furthermore, the 2–10-year spread inversion has lasted 129 trading days through the end of the month – ranking as the fifth longest of all time going back to 1977. Sell-side strategists anticipate this trend to continue throughout 2023 as restrictive monetary policy and slowing economic growth continue to drive the yield curve shape.

The Fed raised its policy rate once again at the December FOMC meeting electing to hike 50 bps – raising the target range to 4.25–4.50%. This measure marks a downshift in the pace of rate hikes following the central bank’s four consecutive increases of 75 bps earlier in the year. The Summary of Economic Projections (SEP) highlighted more aggressive inflation forecasts and weaker-than-expected GDP growth in 2023. Furthermore, the 2023 median projection of the fed funds rate from policymakers ticked up to 5.1% outpacing the September forecast. During the press conference, Chairman Powell described the labor market as extremely tight as demand for labor “substantially exceeds supply” adding upward pressure to wages and prices. On the contrary, he stated goods inflation has subsided while supply chains have normalized, and housing inflation is anticipated to fall given the impact of higher interest rates and market rent declines. Chairman Powell reiterated that monetary policy is still not sufficiently restrictive, however, future policy decisions will be made on a meeting-by meeting basis and depend on incoming economic data. Looking ahead to the next FOMC meeting, the futures market is currently pricing in a 72% probability of a 25 bps rate hike in February. Futures are favoring a second 25 bps increase at the March meeting as investors forecast 2023 policy decisions.

The November CPI release was softer than expected as the annualized CPI fell to 7.1% - the lowest level since December 2021. The services economy is still adding upward pressure to prices although consumers have experienced softening energy and used car costs as of late. Producer prices during the month, as measured by the PPI, were higher than anticipated as companies look to combat margin pressures as input costs have surged.

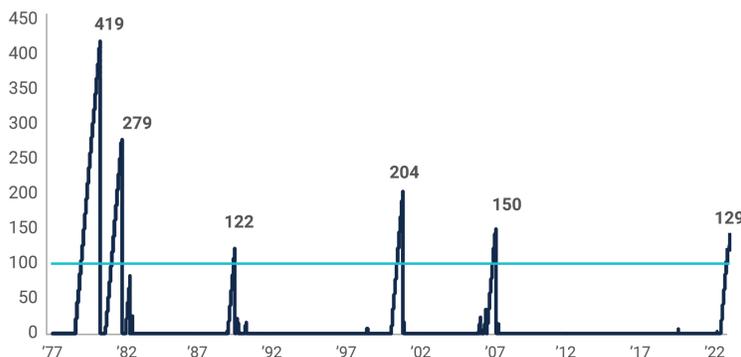
Credit market conditions have been stable and shown resiliency in the face of economic uncertainty. Credit spreads for investment grade and high yield bonds remain near long-term historical averages while interest coverage ratios for the median high yield issuer hover around all time highs. Additionally, the high yield default rate ended the month at 1.6% well below the long run average of 3.57%.

Index Total Returns (%)	1 Mo.	3 Mo.	1 Yr.	3 Yr.
BBg Barc Global Aggregate	0.54	4.55	-16.25	-4.46
BBg Barc Global Aggregate ex-US	1.31	6.81	-18.70	-5.92
BBg Barc US Aggregate	-0.45	1.87	-13.01	-2.70
BBg Barc US Intermediate Aggregate	-0.26	1.72	-9.51	-1.92
S&P Global Dev. Sov. ex-US Bond Index	-3.04	-1.32	-13.95	-4.72
S&P Eurozone Dev. Sovereign Bond	-0.69	6.86	-22.23	-7.22
S&P Pan-Europe Dev. Sovereign Bond	-0.98	7.15	-23.47	-7.62
ICE BofAML Emerging Markets Sov. Bond	2.14	4.53	-9.38	-1.02
S&P US Current 2-Year Tsy Bond Index	0.10	0.47	-4.16	-0.59
S&P US Current 10-Year Tsy Bond Index	-1.49	0.24	-16.47	-3.80
S&P US Current 30-Year Tsy Bond Index	-3.03	-3.30	-33.45	-9.04
BBg Barc US Floating Rate Notes (<5 Yr)	0.52	1.13	1.49	1.09
S&P US Treasury TIPS	-1.11	1.73	-10.50	1.47
BBg Barc Municipal Bond Index	0.29	4.10	-8.53	-0.77
BBg Barc Global Aggregate - Corporate	0.21	5.39	-16.72	-3.70
BBg Barc US Investment Grade Corporate	-0.44	3.63	-15.76	-2.87
BBg Barc US Corporate (AA)	-0.82	2.80	-17.29	-3.85
BBg Barc US Corporate (BBB)	-0.46	3.43	-15.67	-2.93
BBg Barc US Corporate High Yield	-0.62	4.17	-11.19	0.05
S&P/LSTA Leveraged Loan	0.54	3.82	-0.65	1.89
BBg Barc Global Agg Securitized - US MBS	-0.44	2.14	-11.81	-3.21
BBg Barc Global Agg Securitized - US ABS	0.66	0.81	-4.30	-0.10

Key Rates (%/ bps)	Current	1 Mo. Change	3 Mo. Change	1 Yr. Change	3 Yr. Change
US 3 Month	4.41	+4	+118	+436	+287
US 2 Year	4.42	+4	+22	+369	+285
US 5 Year	4.00	+18	-4	+274	+231
US 10 Year	3.88	+18	+8	+237	+196
US 30 Year	3.97	+15	+20	+207	+158
1 Month USD LIBOR	4.39	+25	+125	+429	+263
3 Month USD LIBOR	4.77	-1	+101	+456	+286
6 Month USD LIBOR	5.14	-6	+91	+480	+323
12 Month USD LIBOR	5.48	-9	+70	+490	+349

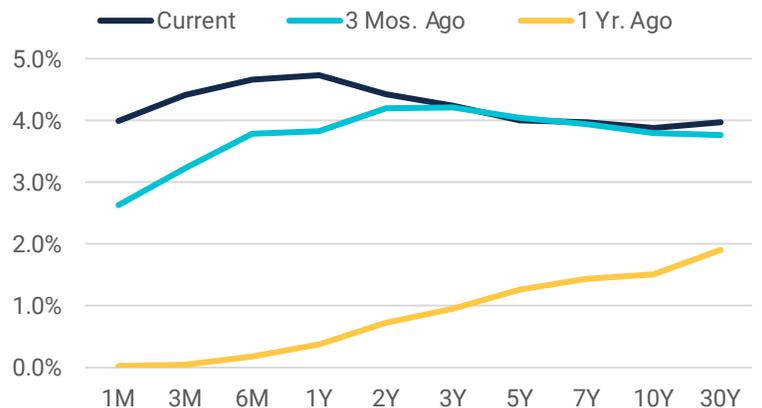
Source: FactSet for all index and market data, shown in USD as of December 31, 2022.

## Streaks of Inverted 2s10s Yield Curve | Number of Trading Days



Source: Bespoke Investment Group.

## Shifts in US Treasury Curve



Source: FactSet. US Treasury Curve as of 12/31/2022, 9/30/2022, and 12/31/2021.

# Notes & Disclosures

Index Returns – all shown in US dollars

All returns shown trailing 12/31/2022 for the period indicated. “YTD” refers to the total return as of prior-year end, while the other returns are annualized. 3-month and annualized returns are shown for:

- The Barclay’s US Aggregate Index, a broad-based unmanaged bond index that is generally considered to be representative of the performance of the investment grade, US dollar-denominated, fixed-rate taxable bond market.
- The ICE BofAML Emerging Markets Sovereign Bond Index is a subset of The BofA Merrill Lynch World Sovereign Bond Index excluding all securities with a country of risk that is a member of the FX G10, all Western European countries, and territories of the U.S. and Western European countries. The FX G10 includes all Euro members, the U.S., Japan, the U.K., Canada, Australia, New Zealand, Switzerland, Norway, and Sweden.
- The Bloomberg Barclays Global Aggregate Index, which measures global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.
- The S&P Global Developed Sovereign Bond index includes local-currency denominated debt publicly issued by governments in their domestic markets.
- S&P Eurozone Developed Sovereign Bond - seeks to measure the performance of Eurozone government bonds.
- The S&P Pan-Europe Developed Sovereign Bond Index is a comprehensive, market-value-weighted index designed to track the performance of local currency-denominated securities publicly issued by Denmark, Norway, Sweden, Switzerland, the U.K. and developed countries in the Eurozone for their domestic markets.
- ICE BofAML Emerging Markets Sovereign Bond - tracks the performance of US dollar (USD) and Euro denominated emerging markets non-sovereign debt publicly issued within the major domestic and Eurobond markets.
- The Bloomberg Barclay’s US Corporate Bond Index (AA), which measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.
- The Bloomberg Barclay’s US Corporate High Yield Index, which covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market.
- Bloomberg Barclay’s Global Aggregate Securitized- US Mortgage-Backed Securities, which is a component of the Bloomberg Barclay’s US Aggregate Index and measures investment grade mortgage backed pass-through securities of GNMA, FNMA, and FHLMC.
- Bloomberg Barclay’s Global Aggregate Securitized- US Asset-Backed Securities, which is a component of the Bloomberg Barclay’s US Aggregate Index and includes the pass-throughs, bullets, and controlled amortization structures of only the senior class of ABS issues.
- The Bloomberg Barclay’s US Floating Rate Notes (<5 Yr) Index, measures the performance of U.S dollar-dominated, investment grade floating rate notes with maturities less than 5 years.
- The Bloomberg Barclay’s Municipal Bond Index, which measures investment grade, tax-exempt bonds with a maturity of at least one year.
- The S&P/ LSTA Leveraged Loan Index is designed to reflect the performance of the largest facilities in the leveraged loan market.

An index is a portfolio of specific securities, the performance of which is often used as a benchmark in judging the relative performance to certain asset classes. Index performance used throughout is intended to illustrate historical market trends and performance. Indexes are managed and do not incur investment management fees. An investor is unable to invest in an index. Their performance does not reflect the expenses associated with the management of an actual portfolio. No strategy assures success or protects against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. All investing involves risk including loss of principal. Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal, and potential liquidity of the investment in a falling market. Past performance is no guarantee of future results.

## Key Rates

Key Rates are shown for US Treasuries and London Interbank Offered Rate (LIBOR), the interest rate at which banks offer to lend funds (wholesale money) to one another in the international interbank market. LIBOR is a key benchmark rate that reflects how much it costs banks to borrow from each other. “Current” refers to the percentage rate as of 6/30/2018, while the rates of change are stated in basis points.

## Credit Spreads

Credit Spreads shown comprise the Option-Adjusted Spread of the indices indicated, versus the US 10-Year Treasury Yield. “Current” refers to the spread as of 6/30/2018, while the rates of change are stated in basis points.

## Key Indicators

Key Indicators correspond to various macro-economic and rate-related data points that we consider impactful to fixed income markets.

- 2s10s (bps)/ 10 Yr vs 2 Yr Treasury Spread, which measures the difference between yields on 10-Year Treasury Constant Maturity Securities and 2-Year Treasury Constant Maturity Securities.
- West Texas Intermediate, which is an oil benchmark and the underlying asset in the New York Mercantile Exchange’s oil futures contract.
- Core Consumer Price Index, which measures the consumer price index excluding food and energy prices. Shown as of the prior month-end.
- Breakeven Inflation: 5 Yr %/ bps, which uses a moving 30-day average of the 5-Year Treasury Constant Maturity Securities and 5-Year Treasury Inflation-Indexed Constant Maturity Securities to derive expected inflation.
- Breakeven Inflation: 10 Yr %/ bps, which uses a moving 30-day average of the 10-Year Treasury Constant Maturity Securities and 10-Year Treasury Inflation-Indexed Constant Maturity Securities to derive expected inflation.

## General Disclosure

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<b>Not Bank Deposits or Obligations</b>	<b>May Lose Value</b>

